

Washington State Auditor's Office

Audit Report

City of Aberdeen Grays Harbor County

Audit Period
January 1, 1999 through December 31, 1999

Report No. 61731

Issue Date
November 3, 2000



Washington _____
State Auditor

Brian Sonntag

Audit Summary

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

ABOUT THE AUDIT

This report contains the results of our annual independent audit of the City of Aberdeen for the period January 1, 1999, through December 31, 1999.

Audit procedures were performed to determine whether the City complied with state laws and regulations, its own policies and procedures, and federal grant requirements. We also audited the financial statements and evaluated the internal controls established by City management. The audit work focused on areas with a potential risk for abuse or misuse of public resources.

RESULTS

The City complied with state laws and regulations, federal regulations, and its own policies and procedures. For financial statement reporting, the City declined to present statements on pension assets and cash flows. Except for the omission of these two statements, the financial statements were complete and accurate.

Table of Contents

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

Description of the City.....	1
Audit Areas Examined	3
Audit Overview	5
Federal Summary	6
Status of Prior Audit Findings.....	7
Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards	8
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	10
Independent Auditor's Report on Financial Statements	12
Financial Statements	14

Description of the City

City of Aberdeen Grays Harbor County January 1, 1999 through December 31, 1999

ABOUT THE CITY

The City of Aberdeen, incorporated in 1890, serves 16,400 citizens in Grays Harbor County. A mayor-council form of government administers the City. There are 12 elected Council Members and an independently elected Mayor.

The City operates on a \$20.2 million annual budget. Its 178 employees provide a full range of services including public safety, fire protection, Municipal Court, utilities, streets, parks and recreation, planning and zoning, and general administration services. It is also one of three entities participating in the Grays Harbor County Drug Task Force.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor	Chuck Gurrad Mike Wilson (elected 11/99)
Council Members:	
Ward 1	Bob Shortt Rhonda Steinman
Ward 2	Alice Phelps David Batchelor
Ward 3	Jo-Ann Andrews Tom Laufman
Ward 4	Tobi Buckman Mike Wilson
Ward 5	Peter Schave Bill Simpson
Ward 6	Jack Micheau (resigned in 9/99) Jim Manenica (appointed in 9/99) Jerry Mills

APPOINTED OFFICIALS

Finance Director	Fred Thurman
City Attorney	Eric Nelson
Chief of Police	Bob Maxfield

Fire Chief

Public Works Director
Parks and Recreation Director
Planning and Economic Development
Personnel Services Manager
Municipal Court Judge

Steve Mitchell (retired 5/99)
Dave Carlberg (appointed 5/99)
Larry Bledsoe
Wes Peterson
Brian Shea
Marsha Olsen
Paul Conroy

ADDRESS

City

200 East Market
Aberdeen, WA 98520
(360) 533-4100

Audit Areas Examined

City of Aberdeen Grays Harbor County January 1, 1999 through December 31, 1999

In keeping with general auditing practices, we do not examine every portion of the City of Aberdeen's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the City were examined during this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Budgeting requirements
- Ethics/conflict of interest laws and policies
- Open Public Meetings Act
- Hotel/motel tax use requirements
- Long-term debt requirements
- Spending state grant funds for allowable purposes
- Competitive bidding
- Contracts and agreements

INTERNAL CONTROL

We evaluated the following areas of the City's internal control structure:

- Cash disbursements
- Cash receipting (utility, ambulance, finance and parks)
- Purchase of goods and services
- Payroll
- Billings and account receivables (utility, ambulance, finance and parks)
- Property and equipment

FINANCIAL AREAS

In addition to the financial-related work listed in other categories, we audited the following areas:

- Long-term debt
- Expenditures including payroll costs and vendor payments
- Revenues such as taxes, charges for services and intergovernmental receivables
- Cash and investments
- Overall presentation of the financial statements
- Receivables such as taxes, customer accounts and utility accounts

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with the following federal requirements for the City's major federal programs, which are listed in the Federal Summary section of this report:

- Spending grant funds for allowable activities and purposes
- Providing nonfederal funds to meet grant matching requirements
- Use of program income
- Federal reporting requirements
- Monitoring awards made to subrecipients

Audit Overview

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

AUDIT HISTORY

We audit the City of Aberdeen annually. The past five audits have reported some areas of concern.

The 1994 report contained three findings related to weaknesses in accounting controls over annual budgets and financial reports.

The 1998 audit contained two findings: one identifying weaknesses in internal controls over fixed assets and the second addressing noncompliance with federal subrecipient monitoring requirements for a federal Community Development Block Grant received by the City.

No findings were reported in 1995, 1996 and 1997. Management has been responsive to prior audit recommendations, taking steps to make improvements and correcting conditions noted in prior audits.

CONCLUSIONS

In the areas examined, we found the City complied with state laws and regulations, its own policies and procedures, and federal financial assistance requirements. Except for the admission of the statement on its pension assets and cash flows, we found the City's financial statements to be complete and accurate.

During the audit, we spent a significant amount of time looking at the City's internal controls over payroll, billings, accounts receivable and receipting. The City needs to continue making improvements to internal controls over payroll expenditures and safeguarding of City assets.

We appreciate the City's commitment to ensure compliance with conditions reported during this audit. We also thank City officials and personnel for their assistance and cooperation during the audit.

Federal Summary

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

The results of our audit of the City of Aberdeen are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued a qualified opinion on the City's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the City.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.
- We reported findings, which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The City did not qualify as a low-risk auditee under OMB Circular A-133.
- The following were major programs during the period under audit:

CFDA No.

Program Title

14.228
83.544

Community Development Block Grant
Federal Emergency Management Agency

Status of Prior Audit Findings

City of Aberdeen Grays Harbor County January 1, 1999 through December 31, 1999

The status of findings contained in prior audit reports of the City of Aberdeen is provided below:

Findings this audit: 0
Findings last audit: 2
Number of repeat findings: 0

- 1. The City does not have adequate internal controls over its fixed assets sufficient to prevent or detect misappropriation of public assets.**

Background

Our evaluation and tests of the City's ability to account for and safeguard its property and equipment disclosed that the City had not done a timely or periodic physical inventory, that inventory records were inaccurate and that assets could not be located. Additionally, surplus property was not adequately tracked and policies and procedures for safeguarding equipment at risk for loss or abuse were not adequate.

Status

In 1999, the City completed its first physical inventory since 1994. The City significantly accounted for assets selected for testing during the current audit. Policies and procedures for safeguarding equipment at risk for loss or abuse have been improved. We consider these to be significant steps towards addressing the control weaknesses previously identified. We plan to continue working with the City on improving its fixed asset system.

- 2. The City did not follow federal subrecipient monitoring requirements for a federal Community Development Block Grant it received.**

Background

The City did not have a system in place to monitor the subrecipient's compliance with grant requirements. During our audit, we reviewed reimbursement requests submitted to the City by the subrecipient. These requests were not supported by adequate documentation that would allow the City to determine whether the expenses were eligible and allowable under the grant requirements. The City could not support that it had performed on-site visits of the subrecipient once or twice a year. However, we found no reports on or documentation of these visits.

Status

The City has new procedures for monitoring and documenting subrecipient review, which adequately support the City's compliance with this requirement. We consider this finding resolved.

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

City of Aberdeen Grays Harbor County January 1, 1999 through December 31, 1999

City Council
City of Aberdeen
Aberdeen, Washington

We have audited the financial statements of the City of Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 1999, and have issued our report thereon dated September 19, 2000.

The City declined to present a Statement of Cash Flows for the year ended December 31, 1999. Presentation of such statements summarizing the City's operating, investing and financing activities is required by generally accepted accounting principles (GAAP).

The City also declined to present a Statement of Plan Net Assets of its Pension Trust Fund for the year ended December 31, 1999. Presentation of such statements summarizing the City's changes in plan net assets of its Pension Trust Fund is required by GAAP.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the City complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the City's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the City and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*.

However, we noted certain matters involving noncompliance not significant enough to report as findings that we have reported to management of the City in a separate letter dated September 22, 2000.

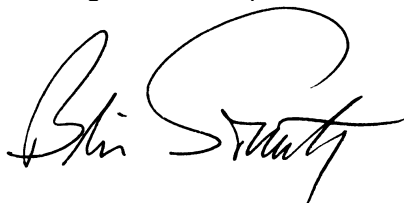
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated September 22, 2000.

This report is intended for the information of management, the City Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized loop at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2000

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

City Council
City of Aberdeen
Aberdeen, Washington

COMPLIANCE

We have audited the compliance of the City of Aberdeen, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1999. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1999.

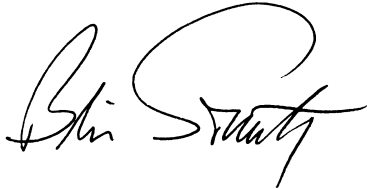
INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low

level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the City Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2000

Independent Auditor's Report on Financial Statements

City of Aberdeen Grays Harbor County January 1, 1999 through December 31, 1999

City Council
City of Aberdeen
Aberdeen, Washington

We have audited the accompanying financial statements of the City of Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 1999. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have audited the accompanying Combined Balance Sheet of the City of Aberdeen as of December 31, 1999, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

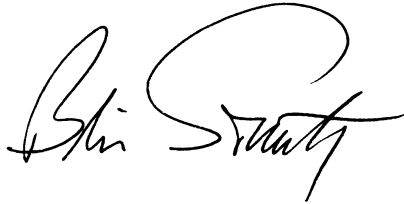
The City declined to present a Statement of Cash Flows for the year ended December 31, 1999. Presentation of such statements summarizing the City's operating, investing and financing activities is required by generally accepted accounting principles (GAAP).

The City also declined to present a Statement of Plan Net Assets of its Pension Trust Fund for the year ended December 31, 1999. Presentation of such statements summarizing the City's changes in plan net assets of its Pension Trust Fund is required by GAAP.

In our opinion, except that the omission of a Statement of Cash Flows and Statement of Plan Net Assets that results in an incomplete presentation, as explained in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Aberdeen at December 31, 1999, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2000, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State and Local Financial Assistance is also presented for purposes of additional analysis. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized loop at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2000

Financial Statements

**City of Aberdeen
Grays Harbor County
January 1, 1999 through December 31, 1999**

FINANCIAL STATEMENTS

Combined Balance Sheet – All Fund Types and Account Groups – 1999
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – All
Governmental Fund Types and Expendable Trust Funds – 1999
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget
and Actual – All Governmental Fund Types – 1999
Notes to the Financial Statements – 1999

ADDITIONAL INFORMATION

Schedule of State and Local Financial Assistance – 1999
Schedule of Expenditures of Federal Awards – 1999
Notes to Schedule of Expenditures of Federal Awards and State and Local Financial
Assistance – 1999